



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

September 21, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Peoples National Bank
Charter Number 21041

1020 John Sims Parkway
Niceville], FL 32588

Office of the Comptroller of the Currency

Birmingham Field Office
100 Concourse Parkway
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Birmingham, AL 35244

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

The major factors that support Peoples National Bank's rating include:

- The loan-to-deposit ratio is reasonable given the bank's size, financial condition and the assessment area credit needs.
- A substantial majority of loans are in the bank's assessment area.
- The distribution of lending reflects satisfactory penetration among individuals of different income levels and businesses of different sizes.
- The distribution of lending reflects excellent penetration among individuals and businesses in different geographies.

SCOPE OF EXAMINATION

We based our analysis on the percentage of the number and dollar amount of loans originated during the evaluation period and the bank's overall loan portfolio makeup. We determined the primary loans types to be home mortgages and loans to small businesses. We based our analysis on Home Mortgage Disclosure Act (HMDA) reported data and a sample of business loans originated or purchased from January 1, 2006 through December 31, 2008.

DESCRIPTION OF INSTITUTION

Peoples National Bank (Peoples NB) is a wholly owned subsidiary of Bankshares Corporation of Niceville, a one bank holding company in Niceville, FL. The main branch is located in Niceville with other full service branches located in Freeport and DeFuniak Springs. The bank has not added a new branch since the last Community Reinvestment Act exam. Each office has a 24-hour accessible Automated Teller Machine (ATM). All ATMs are cash-dispensing only. As of June 30, 2009, Peoples reported total assets of \$128 million, a net loss of \$602 thousand and tier one capital of \$12 million. Loans represent 64 percent of total assets. For a breakdown of the bank's loan portfolio, please see below:

Loan Type	Percent of Portfolio
Commercial and commercial real estate	58%
Residential real estate	28%
Consumer	9%
Agricultural/Other	5%

Source: June 30, 2009 Call report data

There are no financial circumstances or legal constraints that would hinder Peoples National Bank's ability to meet the credit needs of the community. However, market conditions have been very poor in the local market. This has made it more difficult for Peoples NB to meet the credit needs of the communities it serves. This evaluation considers the bank's performance since the last examination dated March 31, 2004, at which the bank received a "Satisfactory" rating.

DESCRIPTION OF ASSESSMENT AREA(S)

Peoples National Bank's assessment area (AA) is made up of contiguous geographies. The bank designated all of the Fort Walton Beach-Crestview-Destin, FL Metropolitan Statistical Area (Fort Walton MSA) and the entire non-MSA Walton County, FL as its assessment areas. Both AAs meet the requirements of the CRA regulation and do not arbitrarily exclude any low- or moderate-income geographies.

Community contacts in the bank's assessment areas identified the credit needs as small business loans, residential and other consumer products.

Fort Walton MSA

The Fort Walton MSA is made up of 33 geographies. There are no low-income tracts, 4 moderate-income tracts (12 percent), 24 middle-income tracts (73 percent) and 5 upper-income tracts (15 percent). Major cities in the Fort Walton MSA are Crestview, Destin, Fort Walton Beach, Mary Esther and Niceville. Based on the 2000 census, the combined total population of the AA was 170,498, the median family income was \$48,882, and there were 46,858 families. The income distribution is: 17 percent are considered low-income, 20 percent are considered moderate-income, 24 percent are considered middle-income and 39 percent are considered upper-income. The 2000 Census data shows that there are 78,593 housing units in the Fort Walton MSA. Of these, 56 percent are owner occupied, 28 percent are rental occupied and 16 percent are vacant. The median housing value in the AA is \$101,467.

Based on 2008 business demographic data, there were 21,838 non-farm businesses in the Fort Walton MSA. Of all businesses, 14,495 (65 percent) of the businesses had revenues of less than \$1 million, 720 (3 percent) had revenues greater than \$1 million and 7,090 (32 percent) did not report revenue information. The majority of the businesses in the Fort Walton MSA are small businesses in the services and retail and construction industries. Approximately 73 percent of the businesses in the AA are small and have less than fifty employees. Of those small businesses, 59 percent of the businesses are very small and have only one to four employees. Twenty-six percent of the businesses in the AA did not report employee size.

Competition among financial institutions in the MSA is strong. Peoples competes with several large national and regional banks who also do business in the MSA. According to the Federal Deposit Insurance Corporation's June 30, 2008 deposit market share report, Peoples ranks thirteenth of twenty-five financial institutions in the Fort Walton MSA with a deposit market share of 2.6 percent. The top five banks account for a combined 55 percent of the deposits in the Fort Walton MSA.

Walton County, FL

Walton County is made up 6 geographies. There are no low-income tracts, no moderate-income tracts, 5 middle-income tracts (83 percent) and 1 upper-income tract

(17 percent). Major cities in the non-MSA AA are DeFuniak Springs, Freeport and Paxton. Based on the 2000 census, the combined total population of the AA was 40,601, the median family income was \$39,055, and there were 11,300 families. Of these families, 19 percent are considered low-income, 18 percent are considered moderate-income, 21 percent are considered middle-income and 42 percent are considered upper-income. The 2000 Census data shows that there are 29,083 housing units in Walton County. Of these units, 45 percent are owner occupied, 12 percent are rental occupied and 43 percent are vacant. The median housing value in the AA is \$113,065.

Based on 2008 business demographic data, there were 7,139 non-farm businesses in Walton County. Of all businesses, 4,738 (65 percent) of the businesses had revenues of less than \$1 million, 224 (3 percent) had revenues greater than \$1 million and 2,350 (32 percent) did not report revenue information. The majority of the businesses in Walton County are small businesses in the services, construction and retail trade. Approximately 72 percent of the businesses are small and have less than fifty employees. Of these small businesses, 59 percent of the businesses are very small and have only one to four employees. Twenty-seven percent of the businesses in the AA did not report employee size.

Competition among financial institutions in Walton County is also strong. As in the other AA, Peoples NB competes with several large national and regional banks. According to the Federal Deposit Insurance Corporation's June 30, 2008 deposit market share report, Peoples ranks eleventh of eighteen financial institutions in Walton County with a deposit market share of 2.9 percent. The top four banks account for a combined 63 percent of the deposits in Walton County.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The Lending Test is rated Satisfactory.

Loan-to-Deposit Ratio

Peoples NB's loan to deposit ratio (LTD) is reasonable, given its size, location, community characteristics and mix of products and services. It reflects adequate responsiveness to the credit needs of the community. The quarterly average LTD ratio since the last CRA evaluation is 76 percent. The most current loan-to-deposit ratio (June 30, 2009) was 72 percent. The average LTD ratio for other similarly situated financial institutions located within the banks operating area ranges from 61 percent to 107 percent, with an average of 87 percent. Peoples NB does sell some of its loans in the secondary market, which would improve the bank's LTD ratio.

Lending in Assessment Area

Peoples NB originated a substantial majority of its loans within its defined AA. We analyzed HMDA-reported data for residential real estate loans and a sample of business loans. The analysis determined that 92 percent of the number and 94 percent

of the dollar amount of loans were originated within the bank’s assessment area. Please refer to Table 1 below for more detail.

Table 1 - Lending in Combined AAs										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential Real Estate	203	91.86	18	8.14	221	26,437	94.94	1,410	5.06	27,847
Commercial	22	95.65	1	4.35	23	1,244	79.68	317	20.32	1,561
Total	225	92.21	19	7.79	244	27,681	94.13	1,727	5.87	29,408

Source: Data reported under HMDA from 2006 to 2008; Business loan sample from 2006 to 2008

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

Lending to borrowers of different incomes and businesses of different sizes is satisfactory. The bank’s record of extending credit to individuals of different income levels reflects adequate lending to low- and moderate-income borrowers in Peoples NB’s AAs. The bank’s record of lending to businesses reflects an excellent level of lending to businesses of different sizes, in the AA.

Home Mortgage Lending

Fort Walton MSA

Borrower distribution of home mortgage loans is satisfactory when compared to the income distribution of families in the Fort Walton MSA. The percentage of loans to low-income borrowers is below the percentage of low-income families living in the AA. However, the percentage of low-income families living below the poverty level significantly impacts the bank’s opportunity to make loans. Families living at this income level are generally unable to afford a home. The percentage of families living below the poverty level is approximately 9 percent. The percentage of home mortgage loans to moderate-income borrowers is close to the percentage of moderate-income families in the AA. See Table 2A for the breakdown of mortgage lending in this AA.

Table 2A - Borrower Distribution of Residential Real Estate Loans in Ft. Walton AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Residential RE	17.10	7.76	20.02	18.10	24.36	13.79	38.52	50.86

Source: Data reported under HMDA from 2006 to 2008; 2000 U.S. Census data.

Walton County AA

Borrower distribution of home mortgage loans is satisfactory when compared to the income distribution of families in Walton County. The percentage of loans to low-income borrowers is below the percentage of low-income families living in the AA. However, the percentage of low-income families living below the poverty level significantly impacts the bank’s opportunity to make loans. Families living at this income level are generally unable to afford a home. The percentage of families living below the poverty level is approximately 14 percent. The percentage of home mortgage loans to moderate-income borrowers is below the percentage of moderate-income families in the AA. See Table 2B for the breakdown of mortgage lending in the bank’s AA.

Table 2B - Borrower Distribution of Residential Real Estate Loans in Walton County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Residential RE	19.21	2.30	18.37	10.34	20.95	21.84	41.47	52.87

Source: Data reported under HMDA from 2006 to 2008; 2000 U.S. Census data.

Loans to Small Businesses

Peoples NB’s lending to businesses with gross annual revenues of \$1 million or less exceeded the percentage of businesses with gross annual revenues of \$1 million or less in the bank’s AAs.

Fort Walton MSA

Lending to businesses of different sizes in the Fort Walton MSA is excellent. The percentage of loans to businesses with less than \$1 million in revenue significantly exceeds the percentage of these businesses in the AA. See Table 2C below for details.

Table 2C - Borrower Distribution of Loans to Businesses/Farms in Ft. Walton AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	64.72	2.85	32.43	100%
% of Bank Loans in AA by #	100.00	0.00	0.00	100%
% of Bank Loans in AA by \$	100.00	0.00	0.00	100%

Source: Business loan sample from 2006 to 2008; 2008 Dunn and Bradstreet data.

Walton County AA

Lending to businesses of different sizes in the Walton County AA is also excellent. The percentage of loans made to businesses with less than \$1 million in revenue exceeds the percentage of these businesses in the AA. See Table 2D below for details.

Table 2D - Borrower Distribution of Loans to Businesses in Walton County AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	64.52	2.63	32.85	100%
% of Bank Loans in AA by #	66.67	33.33	0.00	100%
% of Bank Loans in AA by \$	54.45	45.55	0.00	100%

Source: Business loan sample from 2006 to 2008; 2008 Dunn and Bradstreet data.

Geographic Distribution of Loans

The bank’s geographic distribution of lending is excellent.

Fort Walton MSA

Geographic distribution for residential lending in the Fort Walton MSA is excellent. This AA has no low-income geographies. The bank’s lending in moderate-income geographies exceeds the percentage of owner-occupied housing units in those geographies. See Table 3A below for more detail.

Table 3 - Geographic Distribution of Residential Real Estate Loans in Ft. Walton AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans						
Residential RE	0.00	0.00	5.54	6.03	74.19	72.41	20.28	21.55

Source: Data reported under HMDA from 2006-2008; 2000 U.S. Census data.

Geographic distribution of loans to businesses is excellent. Based on the sample of business loans, the bank’s lending in moderate-income geographies exceeds the percentage of businesses in those geographies. Refer to Table 3B below for details.

Table 3B - Geographic Distribution of Loans to Businesses in Ft. Walton AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business Loans	0.00	0.00	9.72	10.53	66.79	73.68	23.49	15.79

Source: Business loan sample from 2006 to 2008; 2008 Dunn & Bradstreet data.

Walton County AA

The Walton County AA does not have low- or moderate-income tracts; therefore, an analysis would not be meaningful.

Responses to Complaints

Peoples NB did not receive any written or other complaints regarding its performance in helping to meet the credit needs in its assessment area during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.